

**Capital Markets Expectations**

Current Levels: (06/30/2015) S&P 500 2063.11 Ten Year Treasury 2.35% Inflation: -0.10%

**Long-Term Total Return Expectations:**

Asset Class	Current	Historic Range
Cash	0-1%	2-4%
Treasuries	0-2%	4-6%
Investment Grd Corporates	1-4%	5-7%
High Yield Bonds	3-6%	6-9%
Preferred Stocks	4-6%	7-8%
U.S. Equities	6-9%	9-11%
U.S. Small-Midcap Equities	7-10%	9-12%
EAFE Equities	6-10%	9-11%
Emerging Market Equities	7-10%	9-12%



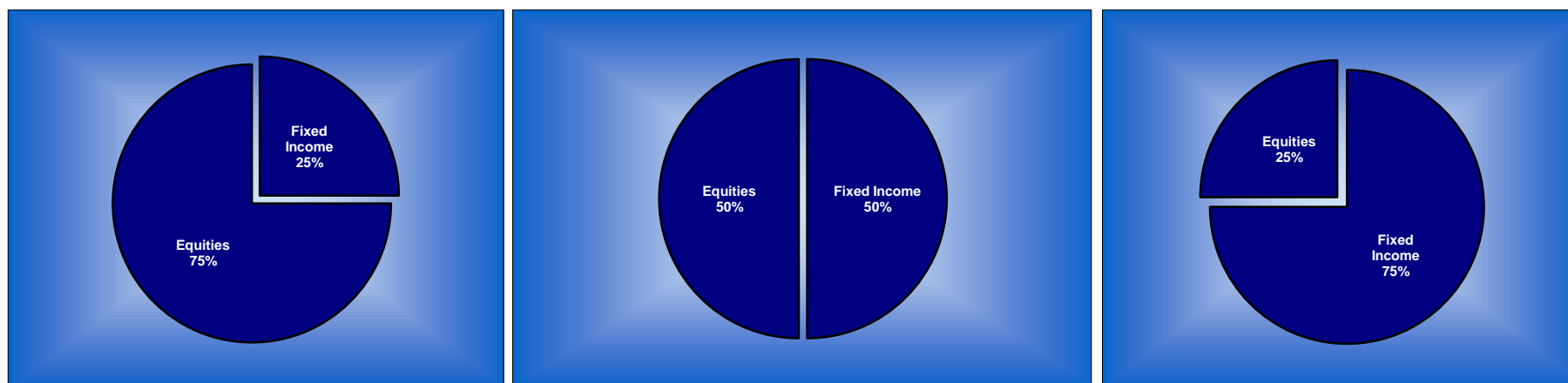
**Long-Term Capital Markets Characteristics**

	Current	Historic Range
U.S. Investment Grade Credit Spread	50-100 bps	50-100 bps
U.S. Equity Risk Premium	4-6%	4-6%
U.S. Equity Dividend Yield	1.5-2.0%	1.5-3.0%
S&P 500 Long-Term Earnings Growth	5-8%	7-8%
Current P/E 2015 (S&P 500)	16.9x	
Current P/E 2016 (S&P 500)	15.1x	
Fair Value P/E	17x	15-16x

## Capital Markets Forecasts 2015-2016

S&P 500 (2015)	Earnings	\$120-125	Year-End Fair Value Target	2200-2250
S&P 500 (2016)	Earnings	\$133-140	Year-End Fair Value Target	2300-2400
Ten Year Treasury	Range	1.0-4.0%	Year-End Target	2.50%

## Long-Term Expected Returns by Asset Allocation



6.875% (2.375% yld, 4.5% appreciation)

5.75% (2.75% yld, 3.0% appreciation)

4.625% (3.125% yld, 1.5% appreciation)

Return assumptions for charts: Equities 6.0% appreciation, 2.0% yld; Fixed Income: 3.5% yld

### Key Assumptions:

- \* U.S. shows modest GDP growth in 2015-16 at 2.5-3.0% annual rate
- \* Expect higher interest rates in 2016 as market discounts eventual end to Fed easing
- \* Corporate profit growth remains positive in 2015-16, but risks to earnings include stronger dollar and weaker oil prices.
- \* Fixed Income remains less attractive than equities given low nominal and real yields and risk of higher interest rates and inflation
- \* Domestic equities remain attractive long-term; we expect increased stock price volatility in second half of 2015.
- \* International and emerging market equities are inexpensive, but have greater earnings growth uncertainty due to sluggish international economic conditions.
- \* We prefer companies with a demonstrated ability to grow revenue, earnings, dividends, and free cash flow in a sluggish economic environment.